

## Before the Illinois Commerce Commission

Direct Testimony of

Gordon J. Kraut, Jr.

On Behalf of

Adams Telephone Cooperative

(ICC Docket Nos. 00-0233 and 00-0335 Consolidated)

April 20, 2001

OFFICIAL FILE

ILL. C. C. Docket Nos. 00-0233/0335

Adams  
Telephone Coop. Exhibit No. 1.0

Witnessed by \_\_\_\_\_

Date 6-19-01 Reporter CB

1   **Q.   PLEASE IDENTIFY YOURSELF FOR THE RECORD.**

2   A.   My name is Gordon Kraut. I am a consulting manager with GVNW Consulting,  
3       Inc. GVNW Consulting, Inc.'s principal business is telecommunications  
4       consulting for small independent telephone companies. My business address is  
5       3220 Pleasant Run, Springfield, Illinois 62707.

6

7   **Q.   PLEASE PROVIDE YOUR EMPLOYMENT BACKGROUND.**

8   A.   I joined GVNW, Inc. on October 20, 1997. In my current position I consult with  
9       independent telephone companies and provide financial analysis and management  
10      advice in areas of concern to these companies. Specific activities include  
11      regulatory analysis, consultation on regulatory policy, financial analysis, market  
12      analysis, rate design and tariff development, long-range strategic planning and  
13      general management consulting services. Previously, I was employed by TDS  
14      TELECOM, as Manager of Revenue and Earnings in the Government and  
15      Regulatory Affairs Group, where my responsibilities were to manage the revenue  
16      and earnings processes, manage the development and implementation of earnings  
17      strategies, and oversee rate cases, regulatory audits, and earnings reviews for the  
18      TDS TELECOM companies. I also assisted in the regulatory review of telephone  
19      company operating and capital budgets, and ensuring that capital recovery  
20      objectives were achieved for TDS TELECOM operating companies.

21

22      In 1988, I began my telecommunications career with TDS, Inc., as an Internal  
23      Auditor. In this position, I conducted both operational and financial reviews of  
24      TDS, Inc.'s operating companies. In 1993, I was promoted to Senior Internal  
25      Auditor where I took a more active role in managing internal audits for the

1 company. In 1994, I was promoted to Associate Manager of Accounting in TDS  
2 TELECOM. My responsibilities included providing management with monthly  
3 reports on company financial results, troubleshooting and providing support to the  
4 region accounting staffs and helping determine accounting policy and procedures.  
5 Early in 1996, I was promoted to the position of Manager of Revenue and Earnings  
6 in the Government and Regulatory Affairs Group.

7  
8 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

9 A. I graduated from Edgewood College in May 1988 with a Bachelor of Science  
10 Degree in Business with an emphasis in Accounting. I was awarded a Masters in  
11 Business Administration from Edgewood College in 1991.

12  
13 **Q. HAVE YOU TESTIFIED BEFORE?**

14 A. Yes. I have provided testimony in the Commonwealth of Pennsylvania in rate  
15 cases for Sugar Valley Telephone Company and Mahanoy & Mahantango  
16 Telephone Company. I have also put in testimony on behalf of Citizens of  
17 Kecksburg also in Pennsylvania in a rural exemption case.

18  
19 **Q. ON WHAT COMPANY'S BEHALF IS THIS TESTIMONY SUBMITTED?**

20  
21 A. Adams Telephone Cooperative.

22  
23 **Q. HAVE THE ILLINOIS UNIVERSAL SERVICE FUNDING**  
24 **CALCULATIONS FOR ADAMS TELEPHONE COOPERATIVE USING**  
25 **THE FORMAT AGREED TO BY THE STAFF AND THE IITA BEEN**  
26 **PREPARED BY YOU OR SOMEONE UNDER YOUR DIRECT**  
27 **SUPERVISION?**

1 A. Yes it has. It is attached as Adams Telephone Cooperative Exhibit 1.0, Schedule  
2 1.01 and consists of three pages.  
3

4 **Q. DID YOU COMPLETE ADAMS TELEPHONE COOPERATIVES**  
5 **EXHIBIT 1.0, SCHEDULE 1.01 IN ACCORDANCE WITH THE**  
6 **INSTRUCTIONS AND BASED ON ADAMS TELEPHONE**  
7 **COOPERATIVE'S ICC FORM 23A OR OTHER INFORMATION FILED**  
8 **BY THE COMPANY WITH THE COMMISSION FOR THE YEAR**  
9 **ENDED DECEMBER 31, 2000?**  
10

11 A. Adams Telephone Cooperative is a cooperative in this state and is not required to  
12 file an ICC Form 23A. Instead, Adams files an RUS 479 report with the  
13 Commission. This filing has been prepared using the RUS 479 report as filed  
14 with the Illinois Commerce Commission for the year ended December 31, 2000.  
15

16 **Q. BASED ON THE RESPONSES AND CONTENT OF ADAMS**  
17 **TELEPHONE COOPERATIVE EXHIBIT 1.0, SCHEDULE 1.01 IS**  
18 **ADAMS TELEPHONE COOPERATIVE PROVIDING STAFF WITH**  
19 **CERTAIN ADDITIONAL DOCUMENTS?**  
20

21 A. Yes. I am providing the Staff with a copy of Adams Telephone Cooperative's  
22 December 31, 2000, Trial Balance.  
23

24 **Q. HAVE YOU PROVIDED THE REQUISITE INFORMATION FROM**  
25 **ADAMS TELEPHONE COOPERATIVE EXHIBIT 1.0, SCHEDULE 1.01**  
26 **TO MR. SCHOONMAKER FOR HIS USE IN COMPILING THE**  
27 **COMPOSITE RESULTS FOR ALL COMPANIES SEEKING FUNDING IN**  
28 **CONNECTION WITH HIS TESTIMONY?**  
29

30 A. Yes, I have.

1

2 **Q. IS ADAMS TELEPHONE COOPERATIVE EXHIBIT 1.0, SCHEDULE**  
3 **1.01 TRUE AND CORRECT TO THE BEST OF YOUR KNOWLEDGE,**  
4 **INFORMATION AND BELIEF?**

5

6 A. Yes, it is.

7

8 **Q. HAVE YOU MADE ANY OF THE STANDARD ADJUSTMENTS THAT**  
9 **HAVE BEEN AGREED UPON BETWEEN THE IITA AND STAFF?**

10

11 A. Yes, I have.

12

13 **Q. PLEASE DESCRIBE EACH OF THE ADJUSTMENTS THAT YOU HAVE**  
14 **MADE TO ADAMS TELEPHONE COOPERATIVE.**

15

16 A. I have made one (1) standard adjustment on Adams Telephone Cooperative  
17 Exhibit 1.0. This adjustment is summarized in Schedule 1.02.

18

19 The first adjustment is standard adjustment #1 as listed in Bob Schoonmaker's  
20 testimony to include the Rural Telephone Bank (RTB) Class B stock. This  
21 information is recorded in account 1402 in Adams's December 31, 2000, Trial  
22 Balance and results in an increase to rate base of \$33,997.

23

24 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY ON BEHALF**  
25 **OF ADAMS TELEPHONE COOPERATIVE?**

26

27 A. Yes, it does.

Adams Telephone Cooperative  
Illinois Universal Service Funding Calculation  
Based upon ICC Form 23A Report Data for December 31, 2000

Line #	Description	Source	Amount	Adjusted Amount	Adjusted Amount
1	Net Regulated Plant	Form 23A, P 8, Net Plant	\$ 5,204,533	\$ 33,997	\$ 5,238,530
2	Materials and Supplies Inventory	Page 2, 13-Month Average	429,681		429,681
3	Customer Deposits	Form 23A, P 8, 4040	33,946	-	33,946
4	ADIT - Regulated Plant	Form 23A, P 8, 4100 + 4340	-	-	-
5	Rate Base before Working Capital	line 1 + line 2 - line 3 - line 4			5,634,265
6	Working Capital Requirement				
7	Total Operating Expenses	Form 23A, P 14, Total	4,192,562	-	4,192,562
8	Less: Depreciation Expense	Form 23A, P 13, 6560	826,245	-	826,245
9	Total WC Operating Expense	line 7 - line 8	3,366,317	-	3,366,317
10	WC OE Requirement	line 9 * 45 / 360			420,790
11	Commission-Ordered Cash Balance Requirement		-	-	-
12	Total Working Capital Requirement	line 10 + line 11			420,790
13	Total Rate Base	line 5 + line 12			6,055,055
14	Total Operating Revenues	Form 23A, P 11, Total	4,793,069	-	4,793,069
15	Less: Illinois High Cost Fund		52,356	-	52,356
16	Net Operating Revenues	line 14 - line 15	4,740,713	-	4,740,713
17	Total Operating Expenses	Form 23A, P 14, Total	4,192,562	-	4,192,562
18	Other Operating Inc and Exp - Net	Form 23A, P 15, 7100	-	-	-
19	Other Operating Taxes	Form 23A, P 15, 7240	-	-	-
20	Net Op Inc before Income Taxes	line 16 - lines 17, 18, & 19	548,151	-	548,151
21	Income Tax Expense	line 34			-
22	Net Operating Income	line 20 - line 21			548,151
23	Return on Rate Base	line 22 / line 13			9.05%
24	After-tax Cost of Capital				12.60%
25	Target Net Operating Income	line 24 * line 13			762,937
26	Adj to Achieve Target Return on RB	line 25 - line 22			214,786
27	Gross Revenue Conversion Factor	line 35			1.0000
28	ROR Funding Deficiency Including Inc Taxes	line 26 * line 27			214,786
29	Calculation of Income Tax Expense				
30	Net Op Inc before Inc Taxes	line 20			548,151
31	Illinois Inc & Rep Tax Expense	line 30 * 7.18%			-
32	Net Op Inc before Fed Inc Tax	line 30 - line 31			548,151
33	Federal Income Tax Expense	line 32 * 34.00%			-
34	Total Imputed Income Tax Expense	line 31 + line 33			-
35	Gross Revenue Conversion Factor	1 / ((1 - .0718) * (1 - .34))			1.6324

Adams Telephone Cooperative  
Illinois Universal Service Funding Calculation  
Based upon ICC Form 23A Report Data for December 31, 2000  
Material & Supplies Worksheet and Other Information

Line #		
1	December-99	\$266,634
2	January-00	\$264,142
3	February-00	\$286,184
4	March-00	\$445,180
5	April-00	\$493,618
6	May-00	\$513,506
7	June-00	\$498,309
8	July-00	\$504,211
9	August-00	\$527,694
10	September-00	\$522,914
11	October-00	\$492,294
12	November-00	\$476,076
13	December-00	\$295,093
14	13 Month Average	\$429,681

Sale/Lease Back Arrangement

☒  
☐

The company does not have any sale(s)/lease back arrangement.  
The company does have sale(s)/lease back arrangement and has provided additional information to staff.

Lease Agreement with Affiliates

☒  
☐

The company does not have any lease agreements with affiliates.  
The company does have lease agreements with affiliates and has provided additional information to staff.

Trial Balances

The Company has provided a copy of its 12/31/2000 trial balance in support of the attached exhibits.

Adams Telephone Cooperative  
Illinois Universal Service Funding Calculation  
Based upon ICC Form 23A Report Data for December 31, 2000  
Operating Revenues By Category

<u>Line #</u>		<u>Source</u>	<u>Amount</u>
		Form 23A, P 10, Total Local	
1	Local Revenues	Network Service Revenues	\$ 591,019
2	State Subscriber Line Charges	Trial Balance 12/31/00	\$ 378,255
3	State Access Revenues	Trial Balance 12/31/00	\$ 1,167,713
4	State High Cost Support	Exhibit X, Line 15	\$ 52,356
5	State Special Access Revenues	Trial Balance 12/31/00	\$ 140,541
6	Total State Access & Local Revenues	Sum (Ln 1 - 5)	\$ 2,329,884
7	Federal Subscriber Lines Charges	Trial Balance 12/31/00	\$ 210,025
8	Federal Access Revenues	Trial Balance 12/31/00	\$ 1,772,847
9	Federal High Cost Support	Trial Balance 12/31/00	\$ 149,260
10	Federal Special Access Revenues	Trial Balance 12/31/00	\$ 99,158
11	Total Federal Access Revenues	Sum (Ln 7 - 10)	\$ 2,231,290
12	Misc Revenues	Trial Balance 12/31/00	\$ 231,894
13	Total Operating Revenues	Ln 6 + Ln 11 + Ln 12	<u>\$ 4,793,068</u>



Adams Telephone Cooperative  
Summary of Adjustments

Adjustment 1	Dr.	Cr.
RTB Stock	\$	33,997

Adjustment to record RTB Stock that is recorded in account 1402.